

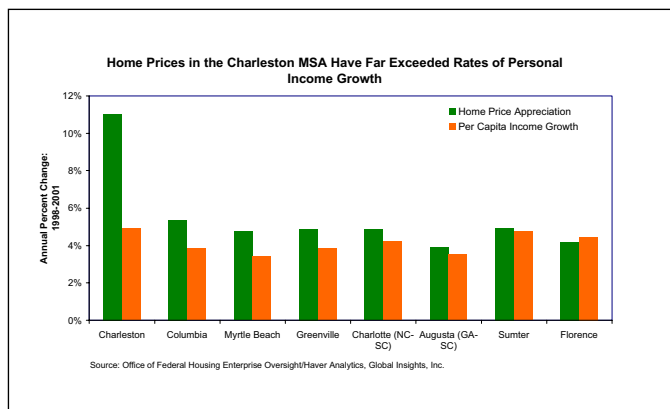
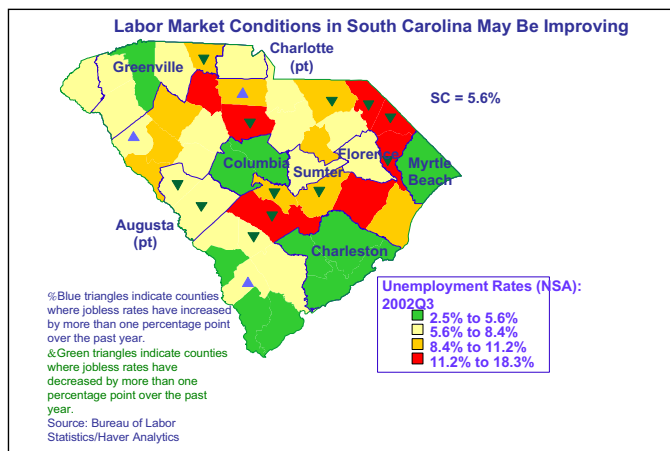
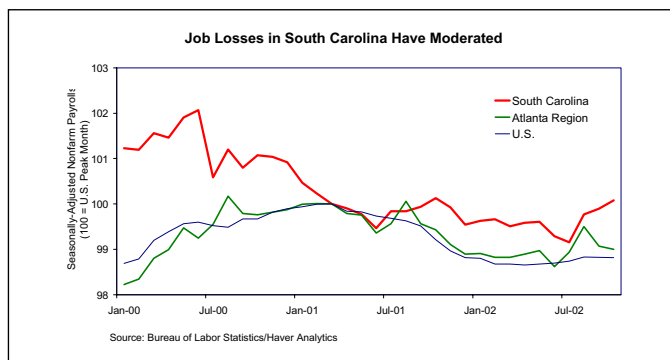
# FDIC State Profile

WINTER 2002

## South Carolina

The rate of job loss in South Carolina abated during the second and third quarters of 2002, but employment levels remain well below the cyclical peak.

- Employment began to grow again in the service producing sectors, and losses in manufacturing moderated, evidence of declining rates of job losses across the state (see **Chart 1**). Initial unemployment insurance claims in the state have declined since early 2002. Despite the apparent stabilization in economic conditions, employment in October 2002 remained even with year-ago levels and nearly 2 percent below the cyclical peak in June 2000.
- Economic conditions remain strongest in the metropolitan areas along the coast, as well as in the **Columbia MSA** (see **Map 1**). However, rates of unemployment also have declined in several rural counties during the year ending third quarter 2002.
- Despite some improvement in the state economy, during 2002, the recent downturn continues to adversely affect state budget revenues. During second quarter 2002, personal and corporate income taxes fell 8.5 percent and 19.2 percent from a year earlier. Revenue shortfalls have resulted in government layoffs across the state.
- The price of residential real estate continued to appreciate during the recent recession, rising more than 7 percent during 2001. During 2002, the rate of appreciation has moderated. Disparities between home price and income growth over the longer term may further dampen home price appreciation. This disparity has been particularly evident in the **Charleston MSA** during the past few years (see **Chart 2**); home price appreciation has exceeded income growth by more than 600 basis points.



**Community banks headquartered in South Carolina<sup>1</sup> have reported sound conditions, but heightened balance sheet risk combined with economic weakness could lead to asset quality concerns.**

- Overall performance among community banks headquartered in South Carolina improved during the year ending June 30, 2002. On a merger adjusted basis, net income rose 53 percent from a year ago as higher net interest margins (NIMs) contributed to the increase. NIMs improved among forty-eight banks compared to only fifteen a year earlier.
- Although lowering funding costs, aggressive interest rate cuts by the Federal Reserve helped compress margins in 2001 as core deposits slowly repriced at most community banks. Continued use of noncore funding, combined with the repricing of some core deposits in 2002, however, was instrumental in driving NIMs higher by June 30, 2002. Despite a drop in noninterest revenue that offset higher net interest income, profitability levels surged among community banks as return on assets increased 34 basis points to 1.26 percent over the 12-month period. Significant reductions in noninterest expenses contributed to this improvement. Provision expenses remained stable.
- Loan growth slowed during the year ending June 30, 2002 (a period of weakening economic conditions), but remained fairly robust at 14 percent. Growth in commercial real estate (CRE) loans represented 17 percent of assets among community banks headquartered in South Carolina at the end of second quarter 2002, up from 15 percent a year earlier. Community banks elsewhere in the Region reported a 10 percent concentration of CRE loans. Although loan portfolio earnings were augmented by the shift toward higher yielding CRE loans, the increased exposure has also created a heightened level of balance sheet risk among these banks. Rising concentrations of CRE loans is particularly evident among community banks headquartered in the **Greenville-Spartanburg** MSA. At June 30, 2002, seven banks (44 percent of the total) held at least 20 percent of assets in CRE loans. This relatively high level of CRE loan volume could increase the vulnerability of these institutions to the effects of rising vacancy rates.<sup>2</sup> Although asset quality trends remained favorable at the end of second quarter 2002, rapid rates of loan growth could be masking some credit quality deterioration.

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<sup>1</sup> Community banks hold assets less than \$1 billion and exclude specialty institutions.

<sup>2</sup> Office vacancy data were unavailable for the Greenville, SC MSA.

## South Carolina at a Glance

| General Information                        | Jun-02     | Jun-01    | Jun-00    | Jun-99    | Jun-98    |
|--|------------|-----------|-----------|-----------|-----------|
| Institutions (#)                           | 69         | 65        | 69        | 63        | 65        |
| Total Assets (in thousands)                | 9,906,699  | 8,802,729 | 7,952,413 | 6,835,567 | 7,304,912 |
| New Institutions (# < 3 years)             | 9          | 13        | 15        | 14        | 11        |
| New Institutions (# < 9 years)             | 27         | 23        | 26        | 19        | 16        |
| <b>Capital</b>                             |            |           |           |           |           |
| Tier 1 Leverage (median)                   | 9.94       | 9.90      | 10.76     | 10.89     | 9.47      |
| <b>Asset Quality</b>                       |            |           |           |           |           |
| Past-Due and Nonaccrual (median %)         | 1.19%      | 1.30%     | 1.21%     | 1.13%     | 1.43%     |
| Past-Due and Nonaccrual ≥ 5%               | 6          | 4         | 3         | 2         | 4         |
| ALLL/Total Loans (median %)                | 1.25%      | 1.25%     | 1.22%     | 1.25%     | 1.31%     |
| ALLL/Noncurrent Loans (median multiple)    | 2.75       | 2.51      | 3.61      | 3.19      | 3.04      |
| Net Loan Losses/Loans (aggregate)          | 0.18%      | 0.20%     | 0.15%     | 0.14%     | 0.11%     |
| <b>Earnings</b>                            |            |           |           |           |           |
| Unprofitable Institutions (#)              | 4          | 8         | 9         | 7         | 5         |
| Percent Unprofitable                       | 5.80%      | 12.31%    | 13.04%    | 11.11%    | 7.69%     |
| Return on Assets (median %)                | 1.06       | 1.10      | 1.22      | 1.20      | 1.22      |
| 25th Percentile                            | 0.77       | 0.51      | 0.64      | 0.81      | 0.93      |
| Net Interest Margin (median %)             | 4.54%      | 4.35%     | 4.65%     | 4.48%     | 4.60%     |
| Yield on Earning Assets (median)           | 6.73%      | 8.26%     | 8.44%     | 7.95%     | 8.39%     |
| Cost of Funding Earning Assets (median)    | 2.24%      | 4.01%     | 3.70%     | 3.28%     | 3.84%     |
| Provisions to Avg. Assets (median)         | 0.24%      | 0.20%     | 0.20%     | 0.21%     | 0.22%     |
| Noninterest Income to Avg. Assets (median) | 0.92%      | 0.85%     | 0.73%     | 0.81%     | 0.73%     |
| Overhead to Avg. Assets (median)           | 3.22%      | 3.28%     | 3.32%     | 3.31%     | 3.21%     |
| <b>Liquidity/Sensitivity</b>               |            |           |           |           |           |
| Loans to Deposits (median %)               | 82.24%     | 81.29%    | 80.37%    | 76.22%    | 72.35%    |
| Loans to Assets (median %)                 | 67.99%     | 68.14%    | 67.14%    | 64.29%    | 61.28%    |
| Brokered Deposits (# of Institutions)      | 11         | 6         | 5         | 5         | 6         |
| Bro. Deps./Assets (median for above inst.) | 4.59%      | 1.22%     | 2.29%     | 0.68%     | 1.90%     |
| Noncore Funding to Assets (median)         | 21.79%     | 21.53%    | 19.62%    | 16.80%    | 16.19%    |
| Core Funding to Assets (median)            | 67.03%     | 67.25%    | 67.24%    | 70.61%    | 71.70%    |
| <b>Bank Class</b>                          |            |           |           |           |           |
| State Nonmember                            | 42         | 40        | 40        | 39        | 43        |
| National                                   | 24         | 22        | 22        | 18        | 19        |
| State Member                               | 3          | 3         | 7         | 6         | 3         |
| S&L  | 0          | 0         | 0         | 0         | 0         |
| Savings Bank                               | 0          | 0         | 0         | 0         | 0         |
| Mutually Insured                           | 0          | 0         | 0         | 0         | 0         |
| <b>MSA Distribution</b>                    |            |           |           |           |           |
|  | # of Inst. | Assets    | % Inst.   | % Assets  |           |
| No MSA                                     | 32         | 5,025,362 | 46.38%    | 50.73%    |           |
| Greenville-Spartanburg-Anderson SC         | 16         | 2,110,713 | 23.19%    | 21.31%    |           |
| Florence SC                                | 6          | 415,989   | 8.70%     | 4.20%     |           |
| Myrtle Beach SC                            | 4          | 889,754   | 5.80%     | 8.98%     |           |
| Charlotte-Gastonia-Rock Hill NC-SC         | 4          | 581,797   | 5.80%     | 5.87%     |           |
| Charleston-North Charleston SC             | 3          | 485,991   | 4.35%     | 4.91%     |           |
| Columbia SC                                | 2          | 206,505   | 2.90%     | 2.08%     |           |
| Sumter SC                                  | 1          | 99,080    | 1.45%     | 1.00%     |           |
| Augusta-Aiken GA-SC                        | 1          | 91,508    | 1.45%     | 0.92%     |           |